World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 37, August, 2024
ISSN: 2749-3628,

DEVELOPMENT OF ENTERPRISES BASED ON FINANCIAL INSTRUMENTS

Uktamov Khusniddin
International School of Finance Technology and Science (ISFT)

Article history:
Received: 14th June 2024
Accepted: 8th July 2024

Abstract:
This paper employs generalized methods of moment (GMM) to analyze the enterprise data set collected from the General Statistics Office in the period 2015–2022 to provide insight on the influence of financial development on business growth: the case of the Southern Key Economic Zone (SKEZ). The empirical results indicate that financial development plays an important role in business growth. However, providing financing to offset scale has the potential to increase sales but reduce business growth.

Keywords: Bank profitability, accounting indicators of profits, future profit forecasts

INTRODUCTION

The Southern Key Economic Region (SKER) includes the following provinces and cities: Ba Ria—Vung Tau, Binh Duong, Binh Phuoc, Long An, Tay Ninh, Tien Giang and Ho Chi Minh City. In 2017, the population of the SKER accounted for only 21.14% and the labor force accounted for 20.14%, but contributed to 37.48% of GDP and 40.94% of the country's total budget revenue. (General Statistics Office, Citation2019). This achievement is largely attributed to the industrial sector and local businesses. According to the General Statistics Office (Citation2019), the SKER has 236.6 thousand business entities, accounting for 36.14% of the number of businesses and contributing more than 41.74% of tax and fee revenues in the whole country in 2017. This shows that business growth in the SKER is important not only for the southern region but also the whole country.

Academically, corporate growth is an essential feature of a market economy (Dosi et al., Citation 2020) and businesses can only create value through growth (Vaz, Citation 2021). At the micro level, corporate growth creates many new jobs and at the macro level, corporate growth not only creates wealth and develops society (Ahlstrom, Citation 2010; Vaz, Citation 2021) but also drives industry development (Dosi et al., Citation2020). As a result, high-growth firms make large contributions to economic prosperity (Vincent et al., Citation2021). Therefore, many empirical studies have measured and evaluated business growth (Vaz, Citation 2021). Studies demonstrate the importance of entrepreneurial motivations in the development of enterprises (Zhou & Wit, Citation 2009); examine the impact of factors affecting business growth through testing Gibrat's law (Burger et al., Citation 2017); the influence of enterprise resources (capital, labor, assets, etc) on growth (Gilbert et al., Citation 2006; Zhou & Wit, Citation 2009); the role of financial resources in business development (Arellano et al., Citation2012; Lee et al., Citation2019).
Although the relationship between financial development and growth has been studied for decades, most studies have looked at financial development at the country level and assessed its impact of financial development on economic growth by national or transnational data (T.V. Tran et al., Citation2020; Topcu & Çoban, Citation 2017). Understanding of the impact of financial development on corporate growth is limited (Mishra & Deb, Citation 2018) and assessments are modest (O'Toole & Newman, Citation2017; Topcu & Çoban, Citation 2017). Although finance is important to businesses, the link between financial development and business growth is not the same as the strong link between the financial sector and firms in corporate finance theory (Mishra & Deb, Citation 2018). Financial development to reduce financial difficulties is to minimize the sensitivity of investment cash flows, thereby having a positive impact on business investment (Gupta & Mahakud, Citation2019).

Although there have been some studies discussing the role of financial development in business growth abroad but so far it has not been conducted in Vietnam. Although the research gap is clear, due to the limited resources, the paper is the first study to attempt to broaden understanding of the role of financial development on business growth in the most important region in Vietnam that of Southern Key Economic Region. This overcomes the limitations on the influence of financial development on firm investment intensity in O'Toole and Newman (Citation 2017), Gupta and Mahakud (Citation 2019), generalizing the financial influence space in the leading financial hypothesis of Topcu and Çoban (Citation 2017), financial development affects firm's financial resources and growth through credit availability by Arellano et al. (Citation 2012). Furthermore, the paper uses data on economic indicators of enterprises aggregated to the provincial level and GMM method to assess the effect of financial development on enterprise growth. This both ensures data consistency and limits the exaggeration of the financial sector for the firms in the research sample.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 37, August, 2024
ISSN: 2749-3628,

2. LITERATURE REVIEW

According to Tingler (Citation 2015), corporate growth is a term widely used in academic research, but there is still no generally accepted definition. This is because corporate growth reflects a complex, heterogeneous process, many strategic issues, and involves very different perspectives (Brenner & Schimke, Citation2015). Penrose (Citation1995) suggests that it can be defined in two different ways, including: (1) the increase of a particular quantity such as sales, production or exports; (2) a process of growing in scale or improving in quality. Meanwhile, Dosi et al. (Citation2020) argue that corporate growth is a process by which firms not only pursue market opportunities but also organize activities to acquire and accumulate resources needed to exploit those opportunities. Thus, enterprise growth can be understood as an increase in scale such as revenue, added value or assets and labor.

Meanwhile, financial development can be defined as improvements in the financial sector (Pradhan et al., Citation 2014) for efficient allocation of resources efficiently in the economy (Cherif & Dreger, Citation 2016). Financial development is described as the combination of depth, accessibility, efficiency and stability in financial activities (Gupta & Mahakud, Citation 2019) to achieve development for the entire financial sector. (Zaman et al., Citation 2012). Therefore, King and Levine (Citation 1993) pointed out that the financial development of a country is important for business performance and economic growth. This is because the financial system has an effect on the real economy through increasing savings and investment rates or improving efficiency in capital accumulation (Topcu & Çoban, Citation2017). In which, the outstanding functions of the financial system are allocating resources, mobilizing savings, supporting risk management, controlling enterprise and contributing to promoting transactions of goods and services (Levine, Citation2005). Abu-Bader and Abu-Qarn (Citation2008) found that financial development is important for long-term economic growth through the impact of financial sector services on capital accumulation and technology innovation. Simultaneously, financial development allows enterprises to maintain production and business (King & Levine, Citation1993), improve access to capital (Owen & Pereira, Citation2018; Rajan & Zingales, Citation 1998), improve capital structure (Fafchamps & Schündeln, Citation 2013) and accelerate growth (Nabamita & Daniel, Citation2021; O'Toole & Newman, Citation2017). Therefore, financial development allows firms to create favorable conditions to improve operational efficiency and increase profits (King & Levine, Citation1993; Levine, Citation 2005), reduce asymmetric shocks and growth fluctuations through favorable and smooth private investment activities (Aghion et al., Citation2010; Chauvet & Jacolin, Citation 2017). Thus, financial development will boost sales growth, productivity, investment rate and export intensity of enterprises (Harrison et al., Citation 2014).

RESEARCH METHODOLOGY

The final insurance supervisory framework adopts the core elements of the proposal with certain modifications to address comments received. Consistent with the proposal, the final framework consists of a risk-based approach to establishing supervisory expectations, assigning supervisory resources, and conducting supervisory activities; applies tailored supervisory ratings; and describes how Federal Reserve examiners will rely to the fullest extent possible on the work of state insurance regulators to limit supervisory duplication. The final guidance has been modified from the proposal to include additional clarity in various sections, including with respect to the complexity classification and applicable guidance. The final guidance also includes additional references to incorporating the work performed by state insurance regulators and allows for noncomplex supervised insurance organizations to be rated up to every other year.

RESULTS AND DISCUSSION

In the proposal, the terms "risk profile," "complexity classification," and "risk assessment" would have been used to describe the Board's approach to aligning its supervision with the risk of a firm. Under the proposal, an organization's risk profile would have depended on its products, investments, and strategy and would have been assessed independent of supervisory opinions or approach. The complexity classification would have been the Federal Reserve's preliminary view of the organization's risk profile and would have been used primarily to determine the level of supervisory resources needed to effectively supervise an organization. A supervised insurance organization would have been classified as either complex or noncomplex when the organization initially became subject to Federal Reserve supervision and only re-classified if the organization's risk profile significantly changed (typically the result of a major acquisition or divestiture). The risk assessment would have been an exercise typically completed annually by Federal Reserve examiners to support a discussion of the organization's material risks, ensuring that supervisory activities planned for the following year were risk-focused and did not duplicate work done by other regulators. Commenters requested clarity on the differences between these three terms as used in the proposal. The final guidance maintains these terms and their intended definitions, but the text has been adjusted to clarify how they will be used.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 37, August, 2024
ISSN: 2749-3628,

COMPLEXITY CLASSIFICATION

Financial risk management. A key component of financial management for SMEs is managing financial risk. Among these dangers might be market risk, which is influenced by a number of factors with an emphasis on the level of market competition as a whole. Market risk is the strategic risk that SMEs face when it comes to the longterm retention of current consumers, the acquisition and retention of new clients, the creation of novel products, or the provision of novel services. The only thing that enables SMEs to execute a suitable sales volume that allows them to sustain their market position is a sufficient number of clients. The two primary components of the competitive environment-customers and competitors – have a significant impact on how competitive a company is. The ability to manage finite resources that are challenging to replace gives organizations a competitive advantage, which SMEs must develop if they are to thrive. Among them is human capital. To succeed and develop, as well as meet customer demand, businesses must be able to innovate new items. Any sort of company's principal objective is to maximize business performance, and managers place high importance on this goal. Because risk is viewed as a crucial component of a company's financial management, the amount of financial risk must be evaluated in terms of how well a firm manages risk in order to make successful financial risk management decisions. Financial risk is one of the main threats facing SMEs.

The main indicators of SME financial risk are challenges in business financing and a lack of funds because the majority of a company's operations are funded by the capital of the owners or managers themselves. This could result in a rise in operational costs and corporate debt due to worries about debt repayment and the ensuing high financial risk. Access to capital is anticipated to raise the bar for a business environment by motivating organizations to pursue more fruitful business prospects. Competitive advantage and internal SME capabilities have a positive and significant correlation. For SMEs that have been in operation for under five years, this relationship is weaker than it is for more seasoned companies. Innovation has a significant and lasting effect on the company's competitiveness via increasing productivity. As levels of customer happiness and loyalty climb, so does support for the purchasing procedures. One of the key signs that could affect the tighter business environment is support from suppliers and customers in the commercial sector. In a more constricted business climate, the help of corporate clients has a greater impact. Improved risk management is not always a result of long-term relationships between SMEs and their suppliers. Some of the main reasons for business failure include a lack of management planning activities, a lack of working capital, offering customers too much credit, failure to implement rapid outsourcing, market competition, and insufficient monitoring of corporate finances. Other factors may also contribute to an organization's failure. The risk of failure decreases as a manager age and managerial ownership becomes clear. However, if larger management boards and managers are present in other organizations, the likelihood of failure will increase.

CONCLUSIONS

Based on the description in the discussion section that has been described in the previous chapter, the authors then draw the following conclusions, the Financial Services Authority can take necessary actions including appointing a statutory manager, the appointment is made if the management of the insurance company is deemed detrimental to consumers so that management is needed that can represent the interests of the OJK and consumers. One of the tasks of the statutory manager is to save the wealth of the insurance company. The statutory manager is responsible for all his actions and decisions while managing the insurance company. The statutory manager ends if OJK judges that it is no longer needed. In addition, the financial services authority as an independent institution has the duty and authority to supervise the insurance industry. Supervision is carried out periodically and/or at any time. In supervising the insurance industry, OJK carries out a type of risk-based supervision. OJK has the right to appoint other parties to carry out part of its authority to other parties. The scope of OJK supervision is all aspects of the insurance business operator or certain aspects of the insurance business activity

REFERENCES

1. Olowofela, O., Kuforiji, O., Odekeye, O., Olaiya, K. I. (2022). Financial Inclusion and Growth of Small and Medium Sized.Enterprises: Evidence from Nigeria. Izvestiya Journal of the University of Economics – Varna, 66 (3-4), 198–212. doi: https://doi.org/10.56065/ijuev2022.66.3-4.198
2. Dewi, G. C., Yulianah, Y., Alimbudiono, R. S., Kurniawan, D. (2023). Application of Business Strategy to Create Competitive Advantage in Indonesian Micro, Small and Medium Enterprises. Jurnal Manajemen Bisnis, 10 (1), 77–83.
3. Adjei-Boateng, E. S. (2023). A Literature Review on Management Practices among Small and Medium-Sized Enterprises. Journal of Engineering Applied Science and Humanities, 8 (1), 1–23.
4. Mbaye, M. H. (2023). Effective working Capital Management Practice and SMEs' financial performance: The case of SMEs operating in the service and construction sectors in Senegal. University of Wales Trinity Saint

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 37, August, 2024
ISSN: 2749-3628,

David.
5. Hendayani, N., Muzakir, M., Yuliana, Y., Asir, M., Wahab, A.(2022). Best Practice of Financial Management in SMEs Operation in Digital times. Budapest International Research and Critics Institute-Journal (BIRCI-Journal), 5 (1), 3350–3361.
6. Nunden, N., Abbana, S., Marimuthu, F., Sentoo, N. (2022). Anassessment of management skills on capital budgeting planning and practices: evidence from the small and medium enterprise sector. Cogent Business & Management, 9 (1). doi: https://doi.org/10.1080/23311975.2022.213648
7.